MINUTES
of the
THIRD MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

August 18, 2015
Room 322, State Capitol
Santa Fe, New Mexico

The third meeting of the Investments and Pensions Oversight Committee was called to order by Senator George K. Munoz, chair, on August 18, 2015 at 9:20 a.m. in Room 322 of the State Capitol in Santa Fe.

Present
Sen. George K. Munoz, Chair
Sen. Sue Wilson Beffort
Rep. Miguel P. Garcia
Rep. Larry A. Larrañaga
Rep. William "Bill" R. Rehm
Sen. William P. Soules
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent
Rep. Monica Youngblood, Vice Chair
Sen. Jacob R. Candelaria
Sen. Bill B. O'Neill
Sen. Carroll H. Leavell
Sen. Steven P. Neville
Rep. Jane E. Powdrell-Culbert

Advisory Members
Sen. Ted Barela
Sen. Carlos R. Cisneros
Rep. Roberto "Bobby" J. Gonzales
Rep. Tomás E. Salazar

Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Sen. Mary Kay Papen
Sen. William H. Payne
Sen. John C. Ryan
Sen. Michael S. Sanchez
Rep. James E. Smith
Rep. Sheryl Williams Stapleton

Staff
Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Ric Gaudet, LCS
Amy Chavez-Romero, Assistant Director for Drafting Services, LCS

Guests
The guest list is in the meeting file.

Handouts
Handouts and other written testimony are in the meeting file.

Tuesday, August 18

Changes to Pension Accounting Precipitated by Governmental Accounting Standards Board (GASB) Statements 67 and 68

Public Employees Retirement Association (PERA). Wayne Propst, executive director, PERA, introduced PERA staff present at the meeting. Mr. Propst indicated that as a result of GASB Statement 67, local governments will be required to report significant net pension liabilities on their financial statements as part of the PERA's cost-sharing plan. Mr. Propst stated that the PERA has a net pension liability of $3.3 billion after the implementation of pension reform initiatives.

Natalie Cordova, chief financial officer, PERA, discussed changes required through implementation of GASB Statements 67 and 68. She indicated that the statements are intended to promote increased comparability and transparency with respect to the long-term benefit obligations of governmental entities. Ms. Cordova explained that GASB Statement 67 applies to plans that administer pension benefits, such as the PERA and the Educational Retirement Board (ERB). In contrast, GASB Statement 68 applies to governments that provide pension benefits to their employees and includes various local government entities. Ms. Cordova explained that the GASB's reforms will require net pension liabilities to be included on employer balance sheets. The net pension liability is calculated by subtracting a pension plan's fiduciary net position, or the market value of assets, from its actuarially accrued liability. Ms. Cordova stated that deferred inflows and outflows would be recorded as a result of the GASB changes.

Jim Lanzarotta, certified public accountant, Moss Adams, provided the committee with an overview of how pension liabilities were previously recorded for employers, including the state and local governments. He explained that previously, the accounting for total contributions was based on a statutory requirement. So long as the employers paid their annual payments, no liability was recorded on their respective financial statements. Mr. Lanzarotta explained that GASB reforms require recognition of an unfunded liability for a pension plan if its investment balance is lower than its total pension liability. Employers are now required to report their respective shares of the unfunded liability on their financial statements.

Mr. Lanzarotta discussed the process that led to the GASB's implementation of GASB Statements 67 and 68. He said that the GASB began deliberating on pension accounting changes in 2006 and that final pension standards were issued in August 2012. From August 2012 to April 2014, the American Institute of Certified Public Accountants (AICPA) deliberated on audit guidance for the pension standards, yet all issues were not identified. Mr. Lanzarotta indicated that in July, issues were discovered with respect to the inclusion of beginning net pension liabilities in employer pension schedules. In addition, Mr. Lanzarotta indicated that the PERA discovered an issue with respect to the classification of employee contributions "picked up" by employers. Mr. Lanzarotta explained that GASB Statement 67 classifies these contributions as a pension expense, but final guidance is awaited from the GASB on this matter.

Mr. Lanzarotta compared the PERA's net pension liability, calculated pursuant to GASB Statement 67, with the PERA's unfunded actuarial accrued liability (UAAL). He said that for fiscal year (FY) 2014, the net pension liability for the PERA multi-employer cost-sharing fund was $3.3 billion, while the UAAL was $4.3 billion as of June 30, 2014. Mr. Lanzarotta stated that the differences in those two calculations exist because the UAAL calculation uses a four-year smoothing factor, while the calculation of the net pension liability is based on the market value of assets, which is more volatile.

Mr. Lanzarotta and Ms. Cordova presented a draft schedule of employer allocations, which is intended to permit the PERA's employer participants to obtain information on their respective shares of net pension liability for their financial statements.

Committee members asked about how employee contribution "pick-ups" by employers might vary among various employers. Mr. Propst noted that the contribution amounts are different for each employee because their salaries vary. A committee member inquired whether the GASB has developed any guidelines with respect to employer contribution levels. Mr. Lanzarotta stated that the GASB does not have such guidelines in place because it functions strictly to set accounting standards, separate from any particular funding policy.

Committee members asked about the effects of employee contribution pick-ups. Ms. Cordova noted those pick-ups approximated $74 million for all PERA participating employers. She said that GASB Statement 67 requires pension plans to distinguish the employee contribution pick-ups as either a salary expense or a benefit expense. If employers recorded the pick-ups as a salary expense, they were not considered as a component of a pension expense. If the pick-ups were recorded as benefit expenses, they were considered as a component of a pension expense. Ms. Cordova said that the only pick-ups included in the draft schedule of employer allocations prepared by the PERA are those that were recorded as benefit expenses. A committee member discussed the possible benefits of employee pick-ups in attracting quality employees to local governments.

In response to a question from a committee member, Mr. Lanzarotta clarified that GASB Statement 67 is a standard that applies to a pension plan, while GASB Statement 68 applies to all participating governments within a cost-sharing plan. He stated that employers are reliant on pension plans to obtain information necessary to comply with GASB Statement 68.

A committee member commented that a number of governmental entities have put a significant amount of work toward comporting with the new GASB standards. Another committee member expressed concern about the new standards' potential impacts upon local government autonomy. Some committee members questioned whether the addition of new accounting methodologies would yield significant benefits.

Mr. Propst indicated that in addition to reporting net pension liabilities using the new GASB standards, the PERA will continue to report the UAAL. He explained that the UAAL might sometimes provide better information with respect to a pension's financial position because of its inclusion of a four-year smoothing factor. Mr. Propst and Ms. Cordova noted that the new GASB standards are intended to increase transparency, which will be useful to individual employers in formulating a trend analysis on their shares of net pension liability. Mr. Propst stated that the additional analysis would be helpful to the Public Employees Retirement Board. Mr. Lanzarotta noted that even with the new GASB standards, the PERA's reports show that it is more than 80 percent funded, which reflects a healthy position compared to other pension plans nationwide. He predicted that if the PERA remains funded at that level, local governments will fare well in bond markets. In response to a question from a committee member, Mr. Lanzarotta estimated that the funded status of the PERA lies within the top quartile of similar plans nationwide.

A committee member asked whether the new net pension liability calculations would have any effect on pension budgetary issues. John Garrett, principal, Cavanaugh Macdonald Consulting, LLC, said that net pension expenses will not have a relationship to budget expenses. He explained that net pension expenses would be determined as a proxy of change in net pension liabilities. He said that net pension expenses will be volatile, and some plans might record negative pension expenses. However, net pension expenses would not be included in budgets.

Committee members asked about the information obtained from local governments and used in the PERA's draft schedule of employer allocations and whether there are any safeguards to ensure the accuracy of the information. Mr. Lanzarotta said that the information in the schedule would be subject to audit. He also indicated that materiality would be a factor to be considered in the audit.

A question was raised about efforts to train employees of local governments with respect to the new GASB standards. Ms. Cordova indicated that the PERA has made presentations to the New Mexico Association of Counties and the New Mexico Municipal League. A committee member commented that there might be some opportunity to work with universities to train students with respect to the demands of governmental entities within New Mexico specific to the new accounting standards.

A committee member inquired whether net pension liability calculations take into account predictions of the number of employees that will be hired in the long term. Mr. Lanzarotta clarified that a calculation of net pension liability only takes into account active employees paying into a pension, inactive employees who have separated from service but have earned service credit and retirees receiving pension benefits. It does not take into account employees that might be hired in the long term. A committee member raised the question of whether the use of vacancy savings might provide a possible alternative toward improving pension solvency.

ERB. Jan Goodwin, executive director, ERB, noted that the ERB was one of the first pension plans in the country to adopt the standards in GASB Statement 67. She stated that

GASB Statement 67 includes standards on accounting disclosures for pension plans, while GASB Statement 68 includes standards on accounting disclosures for employers participating in pension plans.

Ms. Goodwin discussed the possible effects of GASB Statement 68 on issuers. She said that the balance sheets of all of the ERB's 230 participating employers will be affected. She indicated that while the financial statements of the employers will look different, cash flows, which are considered by credit rating agencies, will be unchanged. She said that Standard and Poor's has indicated that it expects that the new reporting methods would not have any significant effects on credit ratings. She stated that rating agencies seem to be primarily concerned with the ability of borrowers to make principal and interest payments when due.

Ms. Goodwin discussed the new requirements contained in GASB Statement 68. New information to be reported includes:

- a description of the plan and benefits provided;
- significant assumptions used in the measurement of net pension liability;
- amounts of the net pension liability and deferred inflows and outflows of resources related to pensions;
- an analysis of the net pension liability's sensitivity to changes in the discount rate; and
- descriptions of changes in the assumptions used in measuring the net pension liability.

Ms. Goodwin said that GASB Statement 68 does not create a new liability or change the amounts employers will be required to contribute to a pension plan. Ms. Goodwin stated that the GASB's goals, with respect to the new standards, are to provide increased transparency and comparability among pension plan employers.

Ms. Goodwin presented a schedule of collective pension amounts for FY 2014. On the schedule, the net pension liability with an assumed discount rate of 7.75 percent approximates $5.7 billion. With a discount rate of 8.75 percent, the net pension liability would approximate $4.0 billion and with a discount rate of 6.75 percent, the net pension liability would approximate $7.7 billion.

Ms. Goodwin presented a draft schedule of employer allocations and pension amounts for FY 2014, containing the relative shares of net pension liability for the ERB's participating employers. The schedule also contains a net pension liability sensitivity analysis for each employer.

A committee member asked if all charter schools are included on the ERB's schedule of employer allocations and pension amounts. Ms. Goodwin indicated that only information for state-chartered charter schools is included on the schedule. A committee member asked how the net pension liabilities of other school districts might be affected if a charter school included on the schedule closed. Ms. Goodwin indicated that the net pension liability would be spread out among all of the entities included on the schedule. She added that employees from closed charter schools might become employed at other charter schools or school districts included on the report, and the liabilities with respect to their pensions would be reported as part of the liabilities of their new employers. However, she noted that the net pension liabilities would not have an effect on the cash flows of charter schools or school districts.

A committee member asked whether the new GASB standards are mandated by state law. An ERB staff member indicated that the standards are not statutorily required in New Mexico. However, agreements between bondholders and issuers might require use of the GASB standards.

In response to a question about cost-of-living-adjustment decreases, Ms. Goodwin stated that those decreases are expected to cease once the ERB's pensions are at a level of 100 percent funding. She stated that the ERB's experience study predicts that the level could be reached by 2046.

A committee member asked whether New Mexico has used contribution holidays. Ms. Goodwin indicated that while she was not aware of any such contribution holidays in New Mexico, there was a contribution swap, coupled with delayed contribution increases in 2005. In response to a question about the ERB's education efforts with respect to the new GASB standards, Ms. Goodwin indicated that the ERB has been working with affected employers and school board associations.

Approval of Minutes

On a motion made and seconded, the minutes from the July meeting were adopted without objection.

GASB Implementation at the Employer Level: State Impact

Dan Olsen, director of financial services, City of Rio Rancho, talked about the city's employer contribution rates. He said that the City of Rio Rancho has 723 active employees and pays 75 percent of employee pension contributions as a result of union contract provisions. Employer contributions, including employer contributions on behalf of employees, represent approximately 11 percent of the city's general fund budget and approximately seven percent of the city's overall operating budget.

Mr. Olsen discussed how the city has prepared for implementation of GASB Statement 68. He stated that the city's financial staff has downloaded the GASB tool kit, attended various training seminars and is preparing templates and narratives for financial statements.

Mr. Olsen presented a snapshot of the city's FY 2014 statement of net position. Its unrestricted net position with respect to governmental activities approximates $17.2 million. Mr. Olsen stated it is not yet known whether the city's unrestricted net position will absorb its net pension liability. However, he clarified that the net pension liability would not affect the city's budget or fund balances.

Mr. Olsen indicated that in August 2014, Moody's affirmed a rating of Aa2 for the city's general obligation bonds but calculated an "elevated pension liability"of $266 million, which is five times greater than the liability estimated by the PERA. He also noted that Moody's commented that "future reforms resulting in increased employer contributions for the plan could pressure the city's operations and place negative pressure on the rating".

Mr. Olsen identified factors that are beyond the city's control with respect to its pension liability. He indicated that benefit levels, contribution rates, assumptions behind liability calculations and asset investments are such factors. Yet, he stated the city is still responsible for reporting its proportionate share of the PERA's unfunded liability.

Mr. Olsen additionally identified factors that are within the city's control, such as the hiring of new employees. Ultimately, he said that information reported by the city is most meaningful when taken into context with the PERA's financial reports.

Leandro Cordova, chief financial officer, Taos County, indicated that the county participates in various PERA plans, including Municipal Plan 4, Municipal Police Plan 5 and Municipal Detention Officer Plan 1. He also described employer and employee contribution rates with respect to each plan. He said that for FY 2015, Taos County reported a total of $995,661.53 in employer contributions, which represents the statutory requirement. He added that as a result of the passage of recent pension reform legislation, employee contributions increased by 1.5 percent. Additionally, in September 2013, the Taos County Commission adopted a resolution to pick up one percent of employee pension contributions. He stated that when an employer elects to pick up a portion of the employee's contribution rate to the PERA, the reporting of the contributions does not change. Mr. Cordova reported that in FY 2015, Taos County contributed $74,133.06 on behalf of its employees as a result of the one percent buydown. Mr. Cordova said that Taos County staff members are continuing to become educated on the requirements of GASB Statement 68 and are reviewing the effects of the one percent buydown on the county's budget.

Mr. Cordova discussed the possible effects of the implementation of GASB Statement 68 on the county's bond ratings. He stated that the county does not anticipate that implementation of GASB Statement 68 will affect the county's bond ratings. He further stated that the county's participation in the bond market is very limited because of its relatively small size. Mr. Cordova said that the county may use other financing alternatives, such as those available through the New Mexico Finance Authority (NMFA). In response to a question from a committee member, Mr. Cordova indicated that the NMFA might offer bond ratings that are more favorable than those of some small local government entities.

Committee members talked about the potential for unintended consequences with respect to changes in factors affecting pension plans. They also asked about the extent to which employers could control changes to contributions toward employee pensions. Mr. Cordova clarified that Taos County's contribution toward one percent of employee contributions was a decision adopted through an ordinance adopted by the Taos County Commission. Other similar buydowns might be implemented as the result of union contract provisions. Mr. Cordova stated that some buy-down provisions adopted by ordinance are irreversible.

A committee member inquired about how Moody's assesses pension liabilities when issuing its bond ratings for local governments. Mr. Olsen explained that Moody's uses an internal calculation, which includes an analysis of the state's pension report, which is ultimately incorporated into an analysis of the position of a local government entity. In response to another question, Mr. Olsen indicated that Moody's considers a local government entity's share of pension liability as similar to a debt service liability. He said that implementation of GASB Statement 68 might provide more transparent financial statements and favorably affect Moody's analysis of the financial position of some local governments.

GASB: State Auditor's Role

Sanjay Bhakta, deputy state auditor, talked about the role of the Office of the State Auditor (OSA) in the implementation of GASB Statements 67 and 68. He said that in 2013, a task force comprising staff from the OSA, the PERA, the ERB and the Department of Finance and Administration (DFA) was formed to discuss how states would implement the new standards. The AICPA recommended that pension plan administrators, such as the PERA and the ERB, produce a report with amounts of the relative portion of pension liability for each participating employer. The AICPA further recommended that the report be subject to audit. Mr. Bhakta indicated that those recommendations were incorporated into the OSA's 2014 audit rule. In addition, the same rule requires that the reports be considered as public records and made available to pension plan participant employers.

Mr. Bhakta discussed provisions contained in the 2015 audit rule. He indicated that the 2015 audit rule clarifies the measurement date for obligations by requiring the PERA and the ERB to provide each of the participant employers with their allocated pension liability information as of June 30, 2014. The rule also provides interpretation guidance on disclosure requirements for state agencies, component appropriation funds of the general fund and the statewide Comprehensive Annual Financial Report (CAFR).

Mr. Bhakta indicated that some issues have been identified with respect to implementation of GASB Statement 68, including a recommendation that pension plans prepare an additional schedule of employer allocations and a schedule of pension amounts as of the plan's prior year end. He indicated that the PERA and the ERB are in the process of adding columns for beginning pension liabilities. Mr. Bhakta also stated that the OSA is engaged in ongoing discussions with the state controller regarding note disclosures affecting state agencies, the general fund and the statewide CAFR.

A committee member asked Mr. Bhakta about the OSA's role in reviewing compliance with GASB Statement 68. Mr. Bhakta indicated that the OSA has reviewed the templates used by the PERA and the ERB and that those templates are in compliance with GASB standards. He indicated that while the OSA does not have the data underlying the amounts contained in reports from the pension plans, those amounts have been audited and the OSA will rely on those audits.

In response to a question from a committee member about the relationship between the provisions of GASB Statement 68 and the state audit rule, Mr. Bhakta clarified that the state audit rule is not intended to provide requirements beyond those contained in GASB Statement 68. He indicated that the rule is meant to provide guidance with respect to standards that might be ambiguous. A committee member expressed concern about how the perception of the stability of small-entity employers might be negatively affected as the result of new reporting requirements.

GASB Implementation at the Employer Level: State Impact

Ron Spilman, state controller, DFA, summarized a few concepts concerning GASB Statements 67 and 68. He stated that GASB Statement 67 affects the reporting of pension plans, while GASB Statement 68 affects the reporting of the pension expense and liability of employers. In addition, he stated that GASB Statement 68 affects reporting for employers participating in defined benefit plans, which include single-employer and multiple-employer cost-sharing plans. He stated that GASB Statement 68 requires recognition of employers' obligations to employees in the period those obligations are earned. GASB Statement 68 incorporates a concept that although pensions are deferred compensation, they represent a present obligation. An employer is primarily responsible for paying benefits to the extent the plan does not have sufficient assets.

Mr. Spilman outlined differences between prior standards under GASB Statement 67 and current standards under GASB Statement 68. Previously, a pension expense was required to be recognized based on funding, but now pension expenses are reported when earned. This change represents a separation between accounting recognition and funding policy. In addition, Mr. Spilman indicated that the new standard places pension liabilities on an equal footing with other liabilities.

Mr. Spilman stated that financial statements of some proprietary and fiduciary funds would be affected by the changes related to GASB Statement 68, in addition to the statewide CAFR. The CAFR will reflect an increase in total long-term liabilities due to unfunded pension liabilities. Overall, Mr. Spilman said that the CAFR would reflect a weaker, but positive, total net position.

The DFA estimates that as the result of GASB Statement 68 requirements, net pension liabilities for FY 2015 will approximate \$3.3 billion for the PERA and \$5.7 billion for the ERB. The FY 2015 pension expense for the PERA is estimated at \$300 million, while the pension expense for the ERB is expected to approximate \$400 million. The net pension liability that will be allocated among employers in both pension plans is $3.6 billion, with $1.8 billion in net pension liabilities for each plan.

Mr. Spilman provided an overview of the impacts of GASB Statement 68 on the state's statement of net position in the FY 2015 CAFR. First, the combined net position liability and deferred pension inflow of $4.3 billion could increase reported liabilities by a fraction of two-thirds. In addition, the unrestricted net position, which had been positive at $1.6 billion, is expected to fall to a deficit position of $2.7 billion. Meanwhile, the total net position is expected to remain positive due to large levels of restricted funds and capital assets. The state's statement of activities is expected still to reflect a positive change in net position, but could be $2 billion lower than expected prior to the implementation of GASB Statement 68.

In summary, Mr. Spilman stated that impacts on financial statements are anticipated because of the changes required by GASB Statement 68. Bond rating agencies expect weaker reported financial ratios due to increased total liabilities, weaker net positions and higher reported pension expenses. Financial statements and funds using an economic measurement focus are expected to be affected. Moreover, Mr. Spilman stated that liabilities associated with the public school system would be reported on school district balance sheets. Liabilities of state charter schools will be reflected on state balance sheets, while the liabilities of district charter schools will accrue to the appropriate school districts.

Mr. Spilman stated that new accounting standards will affect the Retiree Health Care Authority (RHCA), for which only 10 percent of the actuarial accrued liability is funded as of FY 2014. He said that the GASB has revised requirements for accounting associated with other post-employment benefits, and those revisions will affect the RHCA.

Committee members asked whether compliance with the requirements of GASB Statement 68 would have any effect on state bond ratings. Tom Clifford, secretary of finance and administration, stated that since all states are implementing the requirements, New Mexico's bond ratings are not expected to be affected. Moreover, Secretary Clifford stated that net pension liabilities comprise only one aspect of the state's finances. He said that when New Mexico borrows money, it is through the issuance of severance tax and general obligation bonds. He said there are strong protections around those bonding programs because of factors such as the strength of New Mexico's permanent funds. Thus, the state can still obtain strong bond ratings despite reported net pension liabilities.

A committee member asked about the manner in which Moody's provides credit ratings for various entities relative to other rating agencies. Secretary Clifford indicated that Moody's uses methods that more conservatively account for existing liabilities.

Committee members discussed the impact of different variables on pension plans, including discount rates. A committee member asked whether bond rating agencies consider factors such as the value of a state's assets. Secretary Clifford indicated that while bond rating agencies might consider the value of some assets, other assets are not readily accessible. For instance, there are some state permanent funds that could not be used to pay state liabilities without adoption of a constitutional amendment. Secretary Clifford reiterated that a net pension liability is not a liability that affects a state's cash flow position or that must be paid off at once.

In response to questions regarding how rating agencies might view state liabilities associated with the Rail Runner and Spaceport America, Secretary Clifford indicated that to the extent financing for those projects was secured by severance tax bonds, rating agencies probably would not view those outstanding liabilities unfavorably. When asked about balloon payments with respect to the Rail Runner, Secretary Clifford indicated that some refinancing might be necessary. He indicated that to the extent assets are financed by general obligation bonds, there are probably minimal issues because debt service payments are secured by property taxes, which are adjusted to meet payment obligations.

In response to a question about whether additional pension reform might be necessary to improve the state's unrestricted net position, Secretary Clifford said that additional reforms could address that issue. He said that the state's personnel system has a high pension load relative to its payroll. Committee members discussed the possible benefits of adjusting pension policies to mitigate solvency issues and also discussed how strong pension plans attract employees to governments.

Implementation of GASB Statements 43 and 45 and Preparing for GASB Statements 74 and 75

Mark Tyndall, executive director, RHCA, provided a summary of the requirements of the New Mexico Retiree Health Care Act. He said the act became effective in July 1990 but did not contain provisions for an appropriation and contained a pre-funding period of six months. The RHCA began paying full benefits for over 16,000 members in January 1991, with statutory limitations on premium increases until 2008. The act provided the RHCA board of directors with the broad authority to set plan parameters, but contribution levels are set by the state legislature.

Mr. Tyndall indicated that financial planners, such as Fidelity and Nationwide, estimate that a couple retiring at the age of 65 can expect to incur $240,000 of medical expenses during retirement. He said that the RHCA uses actuaries to project revenues and expenses to determine the life of the trust fund it manages. The RHCA uses a calculation similar to that used by Social Security and Medicare trustees. Pursuant to new GASB standards, the RHCA will be required to calculate future liabilities in a manner similar to the calculation required of pension plans.

Mr. Tyndall stated that the RHCA has 300 participating public employers, with 50 percent of the employers including public schools, 25 percent including employers within state government and 25 percent including municipalities, counties and universities. He stated that as of August 1, 2015, the RHCA provides coverage to 58,349 retirees. The RHCA's top sources of income include employee and employer contributions and retiree premiums. Employee and employer contributions for FY 2016 are estimated to approximate $109.4 million, while retiree premiums are estimated to approximate $135.6 million.

Mr. Tyndall described current accounting standards affecting the RHCA, including GASB Statements 43 and 45. GASB Statement 43 requires accounting and reporting standards similar to pension plans for entities such as the RHCA. GASB Statement 45 applies to individual employer groups. Mr. Tyndall presented a table showing the RHCA's UAAL as a percentage of covered payroll for FY 2006 through FY 2014, with the assumption of a five percent discount rate. At the end of FY 2006, the RHCA's actuarial value of assets approximated $154.4 million, which increased to about $377 million by the end of FY 2014. He pointed out that the RHCA's current actuarial value of assets is about $429 million. At the end of FY 2006, the actuarial accrued liability of the RHCA exceeded its actuarial value of assets by about $4.1 million. By FY 2014, that difference dropped by about $700 million. Mr. Tyndall stated that as long as the trust fund managed by the RHCA continues to grow at a rate faster than liabilities are accruing, the program will continue to remain viable.

Mr. Tyndall indicated that new standards will be adopted when GASB Statements 74 and 75 become effective. GASB Statement 74, which will become effective in FY 2017, replaces the requirements of GASB Statement 43 and includes new standards for financial reporting of post-employment benefits other than those offered through pension plans. GASB Statement 75 will apply to individual employers and supersedes the requirements of GASB Statement 45. GASB Statement 75 will become effective in FY 2018. As a result of adoption of the new standards, net liabilities will be reported as part of an employer's balance sheet, similar to the manner in which they are reported by the appropriate entities under GASB Statements 67 and 68. Discount rates will be based on AAA municipal bond yields. Mr. Tyndall indicated this would likely reduce the discount rate assumed by the RHCA to a rate below five percent. He also indicated that the new standards will result in increased reported liabilities and increased actuarial costs. Mr. Tyndall indicated that the RHCA plans to adopt the standards in GASB Statement 74 in FY 2016.

Committee members asked whether Mr. Tyndall had any estimates of changes in liability amounts that would be reported by RHCA due to adoption of GASB Statement 74. Mr. Tyndall indicated that while those estimates are not yet available, he predicted that the sensitivity analysis reporting required by GASB Statement 74 would improve disclosure to members and provide increased information about health care costs.

RHCA Five-Year Strategic Plan

Mr. Tyndall provided the committee members with an overview of the RHCA's five-year strategic plan, which was approved by the RHCA's board of directors in October 2012.

The first element of the plan includes a phase-out of family coverage subsidies for retirees with multiple dependent children. The subsidy in 2016 was reduced from 25 percent to 12.5 percent.

Another element of the plan includes increasing cost-sharing on prescription drug coverage. In 2013, the RHCA introduced co-insurance on all mail order prescriptions. The plan also provides for increased cost-sharing of pre-Medicare plans. In 2013, a $15.00 co-payment differential was imposed with respect to specialty office visits.

The RHCA's plan also includes a graduated minimum age requirement, so that after January 1, 2020, new retirees must reach a minimum age of 55 to receive subsidies. In addition, the plan requires increased years of service to receive a maximum subsidy from 20 to 25 years for new retirees after January 1, 2020. Pre-Medicare retiree subsidies will also be reduced in 2016 from 65 percent to 64 percent of the total premium. Pre-Medicare spousal subsidies will also be reduced in 2016 from 38 percent to 36 percent.

The RHCA also plans to implement enhanced wellness programs and, in 2016, will implement a financially incentivized wellness program with an emphasis on smoking cessation.

The RHCA plans to increase employee and employer contribution levels. During the last session, legislation was introduced to provided for a 1.25 percent contribution increase, but it did not pass. Mr. Tyndall also mentioned the RHCA's plans to convert $6,000 basic life insurance policies, which are paid by the RHCA, to supplemental retiree-paid life insurance policies over the course of four years, beginning in 2018.

Mr. Tyndall provided the committee with an outlook of the RHCA's solvency, which is projected through 2035. The trust fund managed by the RHCA was valued at $432 million as of July 2015. Since 2010, $158.3 million has been added to the trust fund. The RHCA has an unfunded liability of $3.4 billion. Mr. Tyndall also provided the committee with a chart showing cumulative increases in health insurance premiums, workers' contributions to premiums, inflation and workers' earnings from 1999 through 2013.

Mr. Tyndall indicated that during the 2016 session, the RHCA could seek legislation to increase employee contributions by three-eighths of one percent over a three-year period, beginning in FY 2018. In addition, it could seek legislation that increases employer contributions by three-fourths of one percent over a three-year period beginning in FY 2018.

Committee members commended the RHCA for the progress it has achieved. Committee members also talked about possible changes in contribution levels to improve the RHCA's solvency position.

Adjournment

There being no further business before the committee, it adjourned at 3:36 p.m.